



County of Los Angeles
CHIEF ADMINISTRATIVE OFFICE

713 KENNETH HAHN HALL OF ADMINISTRATION • LOS ANGELES, CALIFORNIA 90012
(213) 974-1101
<http://cao.co.la.ca.us>

DAVID E. JANSSEN
Chief Administrative Officer

Board of Supervisors
GLORIA MOLINA
First District

YVONNE BRATHWAITE BURKE
Second District

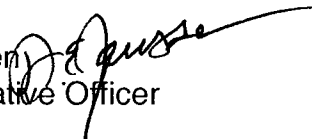
ZEV YAROSLAVSKY
Third District

DON KNABE
Fourth District

MICHAEL D. ANTONOVICH
Fifth District

November 14, 2003

To: Supervisor Yvonne Brathwaite Burke, Chair
Supervisor Gloria Molina
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: David E. Janssen 
Chief Administrative Officer

STATE LEGISLATIVE UPDATE

Today, the Legislative Analyst's Office (LAO) released its **California Fiscal Outlook, FY 2003-04 through FY 2008-09**. The LAO projects a year end shortfall of \$10.2 billion in FY 2004-05 assuming that the vehicle license fee (VLF) rate increase remains in effect. However, if the VLF increase is rolled back completely, as the new Administration indicates it will do, and the State resumes backfill payments to local governments, the FY 2004-05 shortfall increases to \$17.8 billion. Over the forecast period, the LAO foresees annual operating deficits of \$9 billion to \$12 billion that would increase by approximately \$4 billion if the VLF rate increase is rescinded and the backfill continues. The continuing shortfalls indicate that the State cannot grow its way out of its budget shortfalls, according to the LAO.

Since passage of the FY 2003-04 budget plan, economic developments and receipts have exceeded expectations. There has been an improvement in business investment and higher State tax collections from withholding and quarterly estimated income tax payments during the first four months of FY 2003-04. Consequently, the LAO has increased its revenue estimates by \$2 billion in both FY 2003-04 and FY 2004-05. One-half of the new revenues, however, will be spent on Proposition 98 while most of the remainder will be allocated for major deficiencies in the Department of Corrections, Medi-Cal and shortfalls in assumed budget savings including an overestimate of tribal gaming revenues.

The LAO points out that the State is still facing a major mismatch between revenues and expenditures which will have to be addressed through expenditure reductions and/or revenue enhancements. The LAO advises caution about additional borrowing because of the large amount of borrowing already authorized. The LAO also indicates that the effect of borrowing eventually becomes a drag on the budget because debt service expenditures for past spending will interfere with the provision of current services. In FY 2005-06, for example, debt service on the current budget's deficit financing bond and the scheduled payment of a transportation loan is approximately \$3.9 billion, or one-third of the projected operating shortfall.

The Fiscal Outlook is available on the LAO's web site at www.lao.ca.gov.

We will continue to keep you advised.

DEJ:GK
MAL:lm

c: Executive Officer, Board of Supervisors
 County Counsel
 Local 660
 All Department Heads
 Legislative Strategist
 Coalition of County Unions
 California Contract Cities Association
 Independent Cities Association
 League of California Cities
 City Managers Associations
 Buddy Program Participants